

# **ATLANTA COMMUNITY SCHOOLS**

Audited Financial Statements and  
Other Supplementary Financial Information

Year Ended June 30, 2008

**STRALEY, ILSLEY & LAMP P.C.**

**ATLANTA COMMUNITY SCHOOLS**

**2007 - 2008 SCHOOL YEAR**

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**INDEPENDENT AUDITORS.....** Straley, Ilsley & Lamp P.C.

**LEGAL COUNSEL.....** Thrun Law Firm, P.C.

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### INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
**Atlanta Community Schools**  
Atlanta, Michigan 49709

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Atlanta Community Schools**, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Atlanta Community Schools'** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of **Atlanta Community Schools**, as of June 30, 2008 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of the **Atlanta Community Schools'** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Required Supplemental Information

The management's discussion and analysis and the required supplementary information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Other Supplemental Information and Individual Fund Financial Statements

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise **Atlanta Community Schools'** basic financial statements. The additional information identified in the table of contents as other supplemental information and individual fund financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Straley, Ilsley & Lamp P.C.*

October 31, 2008

## **Atlanta Community Schools Management's Discussion and Analysis**

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The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended June 30, 2008. Please read it in conjunction with the financial statements and related footnotes, which follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Atlanta Community Schools financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the whole school district, presenting both an aggregate view of the school district's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the school district's governmental funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the school district acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### **Basic Financial Statements**

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

#### **(Required Supplemental Information)**

Budgetary information for General Fund,

#### **Other Supplemental Information**

Combining Statements for Nonmajor Governmental Funds  
Individual Fund Statements

### **Reporting the School District as a Whole – Government-Wide Financial Statements**

The statement of net assets and the statement of activities, which appear first in the school district's financial statements, report information about the school district as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets includes all of the school district's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

## **Atlanta Community Schools Management's Discussion and Analysis**

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These two statements report the school district's net assets and how they have changed. Net assets – the difference between assets and liabilities, as reported in the statement of net assets - is one way to measure the school district's financial health, or position. Over time, increases or decreases in the school district's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the school district's operating results. However, the school district's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the Atlanta Community Schools.

The statement of net assets and statement of activities report the governmental activities for the school district, which encompass all of the school district's services, including instruction, support services, community services, food services and inter-district transfers. Property taxes, state aid and state and federal grants finance most of these activities.

### **Reporting the School District's Most Significant Funds – Fund Financial Statements**

The school district's fund financial statements provide detailed information about the most significant funds – not the school district as a whole. Some funds are required to be established by state law and by bond covenants. However, the school district may establish other funds to help it control and manage money for a particular purpose (the School Services and Sinking funds are examples) or to show that it is meeting its legal responsibilities for using certain taxes, grants, or other money. The governmental funds of the school district use the following accounting approach:

**Governmental Funds** – All of the school district's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash.

The governmental fund statements provide a detailed short-term view of the operations of the school district and the services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the school district's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

### **The School District as Trustee—Reporting the School District's Fiduciary Responsibilities**

The school district is a trustee, or fiduciary, for its student activity funds. All of the school district's fiduciary activities are reported in separate statements of fiduciary net assets. We excluded these activities from the school district's other financial statement because the school district cannot use these assets to finance its operations. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

## Atlanta Community Schools Management's Discussion and Analysis

### The School District as a Whole

Recall that the statement of net assets provides the perspective of the school district as a whole. Table 1 provides a summary of the school district's net assets as of June 30, 2008:

**TABLE 1**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current Assets	\$ 494,638	\$ 488,941
Deferred Assets	65,634	91,056
Property and Equipment	<u>8,635,019</u>	<u>8,924,797</u>
<b>Total Assets</b>	<b>\$ <u>9,195,291</u></b>	<b>\$ <u>9,504,794</u></b>
<b>LIABILITIES</b>		
Current Liabilities	\$ 772,434	\$ 793,060
Long-Term Liabilities	<u>4,272,868</u>	<u>4,804,532</u>
<b>Total Liabilities</b>	<b>\$ <u>5,045,302</u></b>	<b>\$ <u>5,597,592</u></b>
<b>NET ASSETS</b>		
Invested in property and equipment – Net of related debt	\$ 3,968,015	\$ 3,787,442
Restricted	179,998	109,168
Unrestricted	<u>1,976</u>	<u>10,592</u>
<b>Total Net Assets</b>	<b>\$ <u>4,149,989</u></b>	<b>\$ <u>3,907,202</u></b>

The above analysis focuses on the net assets. The change in net assets (see Table 2) of the school district's governmental activities is discussed below. The school district's net assets were \$4,149,989 at June 30, 2008. Capital assets, net of related debt totals \$3,968,015 and compares the original cost, less depreciation of the school district's capital assets to long-term debt used to finance the acquisition of those assets. The remaining amount of the net assets of \$179,998 was restricted for food services and debt retirement and a balance of \$1,976 that was unrestricted.

The \$1,976 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the school district to meet working capital and cash flow requirements as well as provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the school district as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2008 as compared to fiscal 2007.

# Atlanta Community Schools Management's Discussion and Analysis

**TABLE 2**

	<u>2008</u>	<u>2007</u>
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 83,040	\$ 98,522
Operating grants	433,105	474,683
General revenue:		
Property taxes	2,543,173	2,452,946
State aid	1,318,873	1,446,161
Investment Earnings	34,559	30,239
Miscellaneous	<u>23,846</u>	<u>79,231</u>
Total revenue	\$ <u>4,436,596</u>	\$ <u>4,581,782</u>
<b>Functions/Program Expenses</b>		
Instruction	\$ 2,109,486	\$ 2,149,528
Support services	1,262,735	1,453,216
Athletics	98,516	99,570
Food services	172,860	149,753
Interest on and fees on long-term debt	260,434	279,230
Depreciation (unallocated)	<u>289,778</u>	<u>266,555</u>
Total expenses	<u>4,193,809</u>	<u>4,397,852</u>
<b>Increase &lt;Decrease&gt; in Net Assets</b>	\$ <u>242,787</u>	\$ <u>183,930</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$4,193,809. Certain activities were partially funded from those who benefited from the programs \$83,040, or by other governments and organizations that subsidized certain programs with grants and contributions \$433,105. The District paid for the remaining "public benefit" portion of our governmental activities with \$2,543,173 in taxes, \$1,318,873 in state aid and with \$58,405 of our other revenues (i.e., interest and other general revenue).

The school district experienced an increase in net assets of \$242,787. The key reason for the change in net assets included a reduction in long term debt of \$533,598. This was offset by depreciation charges of \$289,778. The change in the balance of other function program expenses from the previous year was reduced by \$204,043. This was able to offset a decrease in total revenues from the previous year of \$145,186.

As discussed above, the net cost shows the financial burden that was placed on the State and the school district's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the majority of school district operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the school district and balance those needs with State-prescribed available unrestricted resources.

## **Atlanta Community Schools Management's Discussion and Analysis**

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### **The School District's Funds**

As we noted earlier, the school district uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the school district is being accountable for the resources taxpayers and others provide and may provide more insight into the school district's overall financial health. As the school district completed this year, the governmental funds reported a combined fund balance of \$289,904 which is an increase of \$20,207 from last year. The primary reason for this increase was a reduction of expenditures of \$417,267.

The General Fund fund balance available to fund general operations costs for instructional, administrative and support services decreased \$83,751 to end the year at \$95,751.

### **General Fund Budgetary Highlights**

During the course of the year, the school district performs budget amendments as necessary to reflect changes from the original budget adopted in June of 2007. These budget amendments reflect changes in enrollment, personnel and other costs that became more defined during the fiscal year. Two budget amendments were made during the 2007-08 fiscal year with the final amendment being made in June, 2008. (A schedule showing the school district's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements).

A large portion (45%) of the school district funding is in the form of state aid and federal grants. Generally, the amount of assistance from state aid, state grants and federal grants is not known until the fiscal year has been partially completed. The 2007-08 state foundation grant of \$7,204 per pupil, as compared to former years, was fully funded by the State of Michigan.

Overall, the districts expenditures exceeded revenues by \$83,751 thereby decreasing the fund equity to \$95,751, which equates to 2.74 percent of the total district expenditures made in 2007-08.

### **Debt Administration**

At the end of this year, the school district had \$4,472,546 in outstanding bonded debt which decreased by \$429,691 from the prior year.

The school district was also able to reduce its loan and capital lease obligations by \$16,449 and \$45,451, respectively.

In addition, the school district paid off \$40,500 in early retirement incentive payments and reduced its compensated absences liability by \$1,507.

**Atlanta Community Schools  
Management's Discussion and Analysis**

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**Capital Assets**

At June 30, 2008, the school district had \$8,635,019 invested in a broad range of capital assets, including land, buildings, furniture and equipment, and vehicles. The Capital Assets experienced a net increase (including additions, deductions, and depreciation) of approximately \$289,788 from last year. This represented depreciation of \$289,788.

	<u>2008</u>	<u>2007</u>
Assets not being depreciated – Land	\$ 1	\$ 1
Buildings and improvements	10,708,724	10,708,724
Furniture, fixtures and equipment	1,645,839	1,645,839
Vehicles and buses	<u>18,000</u>	<u>87,344</u>
Total capital assets	12,372,564	12,441,908
Less accumulated depreciation	<u>(3,737,545)</u>	<u>(3,517,111)</u>
Net capital assets	\$ <u>8,635,019</u>	\$ <u>8,924,797</u>

**Economic Factors and Next Year's Budgets and Rates**

Our Board of Education and administration consider many factors when setting the school district's 2008-09 fiscal year budgets. The 2008-09 fiscal year budgets were adopted in June 2008 based on student enrollment, property valuations, state and federal revenue estimates available at that time. Under state law, the school district cannot access additional property taxes for operations without a vote by the electorate within the ISD (Atlanta Community Schools District). As a result, district funding is heavily dependent on the State's ability to fund local school district operations. Once final pupil counts and added cost calculations are made, State law requires the school district to amend the budget if actual resources are not sufficient to fund original appropriations. Since the school district's revenue is heavily dependent on State funding and the economic health of the State's School Aid fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The state periodically holds a revenue estimating conference to estimate revenues. The School Aid Fund receives a significant amount of revenue from the 2% additional sales tax voted under Proposal A. Accordingly, statewide economic activity has a direct impact on the amount of foundation grant that is funded by the State of Michigan. The foundation grant, as proposed by Governor Granholm, for 2008-09 is estimated at \$7,316 per pupil.

Additionally, the impact of declining enrollment has seriously limited the districts ability to fund current programs. Schools are funded under Proposal, A which directly ties the local school state aid to the number of pupils enrolled. The Atlanta Community School District enrollment has declined by approximately thirty-seven students from 2007-08. The declining enrollment trend is expected to continue based upon the economic conditions within the district.

Three additional factors, among others, that are having a significant impact on the allocation of resources of the district include escalating health care costs, retirement fund contributions and

## **Atlanta Community Schools Management's Discussion and Analysis**

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increased energy costs. For the fiscal year ended June 30, 2008, these costs consumed 20% of the budget. We are projecting that these costs will continue to rise in the immediate future. Most importantly, we can predict that these costs will continue to absorb an increasing proportion of the available financial resources. The district also has a number of fixed obligations by contract (equipment leases, energy improvements, and E.R.I.P. and sick leave payments) that must be funded through current operating revenues.

### **Contacting the School District's Financial Management**

This financial report is designed to provide the school district's citizens, taxpayers, customers, investors, and creditors with a general overview of the school district's finances and to demonstrate the school district's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Manager of Atlanta Community Schools, Donald C. Schaedig, at 10500 County Road 489, Atlanta, Michigan 49709, (989)785-4877.

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## **BASIC FINANCIAL STATEMENTS**

Atlanta Community Schools

**STATEMENT OF NET ASSETS**

June 30, 2008

	<u>Governmental Activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 229,884
Due from other governmental units	248,495
Inventory	4,820
Prepaid expenses	11,439
	<u>494,638</u>
Total Current Assets	<u>494,638</u>
<b>NON-CURRENT ASSETS</b>	
Deferred issuance costs - net	65,634
Capital assets	12,372,564
Less: Accumulated depreciation	(3,737,545)
	<u>8,700,653</u>
Total Non-Current Assets	<u>8,700,653</u>
<b>TOTAL ASSETS</b>	<u>9,195,291</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	38,429
Due to agency fund	15,978
Payroll deductions and withholdings	22,475
Interest payable	32,798
Accrued expenses	34,848
Salaries payable	93,004
Current portion of long-term debt	534,902
	<u>772,434</u>
Total Current Liabilities	<u>772,434</u>
<b>NON-CURRENT LIABILITIES</b>	
Due in more than one year	4,272,868
	<u>5,045,302</u>
Total Liabilities	<u>5,045,302</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	3,968,015
Restricted for:	
Food service	4,208
Debt service	175,790
Unrestricted	1,976
	<u>4,149,989</u>
Total Net Assets	<u>\$ 4,149,989</u>

The accompanying notes to financial statements are an integral part of this statement.

Atlanta Community Schools

**STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES**

Year ended June 30, 2008

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Assets
<b>FUNCTION / PROGRAMS</b>				
Instruction	\$ 2,109,486	\$ 1,774	\$ 317,662	\$ (1,790,050)
Supporting services	1,262,735	-	-	(1,262,735)
Athletics	98,516	40,069	-	(58,447)
Food Services	172,860	41,197	115,443	(16,220)
Interest and fees on Long-Term Debt	260,434	-	-	(260,434)
Depreciation - unallocated	289,778	-	-	(289,778)
Total Governmental Activities	4,193,809	83,040	433,105	(3,677,664)
General Revenues:				
Property taxes, levied for general purposes				1,835,403
Property taxes, levied for debt retirement				707,770
State aid				1,318,873
Investment Earnings				34,559
Miscellaneous				23,846
Total General Revenues				3,920,451
Change in Net Assets				242,787
Net Assets - Beginning of the year				3,907,202
Net Assets - End of the year				\$ 4,149,989

The accompanying notes to financial statements are an integral part of this statement.

Atlanta Community Schools

**BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2008

	General Fund	Debt Retirement Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 36,605	\$ 175,790	\$ 17,489	\$ 229,884
Due from other governmental units	247,308	-	1,187	248,495
Inventory	-	-	4,820	4,820
Prepaid expenses	11,439	-	-	11,439
Total assets	<u>\$ 295,352</u>	<u>\$ 175,790</u>	<u>\$ 23,496</u>	<u>\$ 494,638</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Accounts payable	\$ 35,606	\$ -	\$ 2,823	\$ 38,429
Due to agency fund	14,485	-	1,493	15,978
Payroll deductions and withholdings	22,475	-	-	22,475
Accrued expenditures	34,031	-	817	34,848
Salaries payable	93,004	-	-	93,004
Total liabilities	<u>199,601</u>	<u>-</u>	<u>5,133</u>	<u>204,734</u>
Fund Equity				
Fund balances				
Reserved:				
Food service	-	-	4,208	4,208
Debt service	-	175,790	-	175,790
Unreserved				
Undesignated	95,751	-	14,155	109,906
	<u>95,751</u>	<u>175,790</u>	<u>18,363</u>	<u>289,904</u>
Total liabilities and fund balances	<u>\$ 295,352</u>	<u>\$ 175,790</u>	<u>\$ 23,496</u>	<u>\$ 494,638</u>

The accompanying notes to financial statements are an integral part of this statement.

Atlanta Community Schools

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES**

June 30, 2008

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Total Governmental Fund Balances	\$	289,904
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Amounts reported for governmental activities in the statement of net assets are different because:

Other Non-Current Assets are not available to pay for current period expenditures and, therefore are deferred.	65,634
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:

Capital asset cost	\$	12,372,564	
Capital asset accumulated depreciation		<u>(3,737,545)</u>	
			8,635,019

Accrued interest on long-term liabilities	(32,798)
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Bonds payable (net of unamortized discount)	(4,472,546)	
Loans payable	(12,075)	
Capital leases payable	(215,219)	
Compensated absences payable	(37,430)	
Retirement incentive liabilities	<u>(70,500)</u>	
Total long-term liabilities		<u>(4,807,770)</u>

Total Net Assets - Governmental Activities	\$	<u><u>4,149,989</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

Atlanta Community Schools

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
GOVERNMENTAL FUNDS**

Year ended June 30, 2008

	General Fund	Debt Retirement Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local sources:				
Property taxes	\$ 1,835,403	\$ 707,770	\$ -	\$ 2,543,173
Interest on investments	18,095	15,634	830	34,559
Rents	2,638	-	-	2,638
Athletics admissions	-	-	22,139	22,139
Food sales	-	-	41,197	41,197
Miscellaneous local revenue	22,982	-	17,930	40,912
State sources	1,312,593	-	6,280	1,318,873
Federal sources	264,679	-	115,443	380,122
Interdistrict sources	52,983	-	-	52,983
Total revenues	3,509,373	723,404	203,819	4,436,596
<b>EXPENDITURES</b>				
Current:				
Instruction	2,109,486	-	-	2,109,486
Supporting services	1,304,126	616	-	1,304,742
Athletics	-	-	98,516	98,516
Food service	-	-	172,860	172,860
Debt Service:				
Principal retirement	61,900	435,000	-	496,900
Interest and fees	14,490	219,395	-	233,885
Total expenditures	3,490,002	655,011	271,376	4,416,389
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	19,371	68,393	(67,557)	20,207
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	-	5	103,117	103,122
Transfer to other funds	(103,122)	-	-	(103,122)
Total other financing sources (uses)	(103,122)	5	103,117	-
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	(83,751)	68,398	35,560	20,207
<b>FUND BALANCES, beginning of the year</b>	179,502	107,392	(17,197)	269,697
<b>FUND BALANCES, end of the year</b>	\$ 95,751	\$ 175,790	\$ 18,363	\$ 289,904

The accompanying notes to financial statements are an integral part of this statement.

Atlanta Community Schools

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year ended June 30, 2008

Total net change in fund balances - governmental funds		\$	20,207
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
Current year depreciation expense		\$ (289,778)	(289,778)
Repayment of the debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.			
Bonds Payable	435,000		
Loans Payable	16,449		
Capital Leases Payable	45,451		
			496,900
Proceeds from debt are a revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in treatment of general obligation bonds and related items is as follows:			
Amortization of Deferred Bond Costs and Bond Premiums (Net)	(30,733)		(30,733)
Net change in accrued interest payable:			
Accrued interest on long-term liabilities June 30, 2008	(32,798)		
Accrued interest on long-term liabilities June 30, 2007	36,982		
			4,184
Net change in accrued compensated absences:			
Accrued compensated absences June 30, 2008	(37,430)		
Accrued compensated absences June 30, 2007	38,937		
			1,507
Net change in early retirement incentives:			
Early retirement incentives June 30, 2008	(70,500)		
Early retirement incentives June 30, 2007	111,000		
			40,500
Change in Net Assets of Governmental Activities		\$	242,787

The accompanying notes to financial statements are an integral part of this statement.

Atlanta Community Schools

**STATEMENT OF AGENCY FUND ASSETS AND LIABILITIES**

June 30, 2008

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	<u>Student Activity Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 35,651
Due from other funds	<u>15,978</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 51,629</u></u>
<b>LIABILITIES</b>	
Due to student groups	<u>\$ 51,629</u>
Total liabilities	<u><u>\$ 51,629</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1--SIGNIFICANT ACCOUNTING POLICIES.**

The financial statements of Atlanta Community Schools (the School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below:

**A. Description of Operations and Reporting Entity.**

**Description of Operations.** The School District operates under a locally elected seven-member Board form of government and provides educational and supportive services to students K-12 as mandated by the State of Michigan and/or federal agencies. The School District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. The Board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

**Reporting Entity.** A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Atlanta Community Schools, this includes general operations, food services, athletics, debt retirement, and student and supportive service activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt, or the levying of taxes. The School District has no component units.

**B. Fund Accounting.**

**Fund Accounting.** The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

**Governmental Funds.** Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

**General Fund.** This fund is used to record the general operations of the School District pertaining to education and those transactions not accounted for in another fund. Included are all transactions related to the approved current operating budget.

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1--SIGNIFICANT ACCOUNTING POLICIES.** (continued)

The expenditures are classified in accordance with the latest revised edition of the *Accounting Manual for Michigan School Districts* (Bulletin 1022, as revised) issued by the Michigan Department of Education as follows:

**Instruction** - Instruction includes the activities dealing directly with the teaching of pupils or the interaction between teacher and pupils. Teaching may be provided for pupils in a school classroom; in another location, such as in a home or hospital; and other learning situations, such as those involving co-curricular activities. It may also be provided through some other approved medium, such as television, radio, telephone, and correspondence. Included here are the activities of aides, assistants of any type, and supplies and machines which assist directly in the instruction process.

**Supporting Services** - Supporting services are those services which provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction and, to a lesser degree, community services. Supporting services exist as adjuncts for the fulfillment of the objectives of instruction, rather than as entities within themselves.

**Special Revenue Funds.** Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specific purposes. The special revenue funds of the School District are the food service and athletics funds.

**Debt Retirement Funds.** The funds are used to account for accumulated resources for, and the repayment of, general long-term principal, interest and related costs.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose, and the accumulation of resources for, and the repayment of debt.

**Fiduciary Funds.** Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for others. The School District presently maintains an agency fund to record the transactions of student groups for school and school related purposes.

**C. Basis of Presentation.**

**Government-wide Financial Statements.** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The financial activities of Atlanta Community Schools are all considered governmental and do not reflect any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1--SIGNIFICANT ACCOUNTING POLICIES.** (continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Fund Financial Statements.** Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fiduciary funds are reported using the economic resources measurement focus.

**D. Basis of Accounting.**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1--SIGNIFICANT ACCOUNTING POLICIES.** (continued)

**Revenues.** Exchange and Non-exchange Transactions: Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis.

On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

**Deferred Revenue.** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

**Expenses/Expenditures.** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

**Cash and Cash Equivalents.** Cash equivalents include certificates of deposit and other short-term, highly liquid investments that are readily convertible to known amounts of cash.

**Inventories and Supplies.** On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items are recorded as an expenditure in the governmental fund types when purchased.

Atlanta Community Schools

NOTES TO FINANCIAL STATEMENTS

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**NOTE 1--SIGNIFICANT ACCOUNTING POLICIES.** (continued)

**Prepaid Expenses.** Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**Bond Issuance Costs.** On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

**Interfund Balances.** On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets.

**Capital Assets.** General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture, Fixtures and Equipment	5 – 20 years
School Buses	8 years
Fleet Vehicles	8 years

**Accrued Liabilities and Long-Term Obligations.** All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1--SIGNIFICANT ACCOUNTING POLICIES.** (continued)

**Compensated Absences.** The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the government fund financial statements.

**School Funding.** With the passage of Senate Bill 1 in August, 1993, and the subsequent approval of Proposal "A" by Michigan voters, the so-called Bursely funding formula was replaced by a system of base foundation grants per pupil in each local school district in Michigan. The basic foundation allowance is determined annually by the Legislature of the State of Michigan. The Atlanta Community Schools received a basic foundation allowance of \$7,204 per pupil based on pupil membership counts taken in February and September of 2007 for the school year ending June 30, 2008. Future adjustments to the base grant will be based on a revenue index, with districts below the statewide \$5,000 base amount receiving greater increases. Most categorical aid, including social security (FICA) and state retirement contributions, was rolled into the base foundation amount, except for special education, special education transportation, adult education, early childhood education and vocational education funding.

As part of Proposal "A", a two-cent increase in the state sales tax was approved along with several other smaller specific tax increases, while eliminating local school operating property taxes for homestead and qualified agricultural property owners. A 6-mill statewide education tax was imposed on all property, with an additional local property tax of 18 mills required on all non-homestead and non-qualified agricultural properties. The 6-mill education tax is not subject to further voter approval, but continuing authorization from local voters for the 18-mill local tax is required. The State of Michigan revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units. Further authorization was granted to local school districts to secure voter approval for up to 3 enhancement mills for up to three years, beginning with the 1994-95 school year. After the 1996-97 school year, any enhancement mills must be approved on an intermediate school district-wide basis.

**Property Taxes.** The School District levies its property taxes on July 1 and various municipalities collect its property taxes and remit them to the School District through September. The delinquent real property taxes of the School District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the School District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1--SIGNIFICANT ACCOUNTING POLICIES.** (continued)

**State Categorical Revenue.** The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

**Interfund Activity.** Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Extraordinary and Special Items.** Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2008.

**Economic Dependency.** The School District received approximately 37% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

**Fund Balance Reserves.** The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for school funded benefits.

**Net Assets.** Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**Use of Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Reclassification.** Certain items reported in the June 30, 2007 financial statements may have been reclassified to conform with the presentation for the current year.

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2--LEGAL COMPLIANCE.**

**Budgets and Budgetary Accounting.** The State of Michigan adopted a Uniform Budgeting and accounting Act (the Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for general and special revenue funds and an informational study for capital project funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Atlanta Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. (Individual amendments were not material in relation to the original appropriations.)
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

P.A. 621 provides that a school district shall not incur expenditures in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section (RSI).

**NOTE 3--DEPOSITS AND INVESTMENTS.**

As of June 30, 2008, the School District had the following deposits held with Alpena Alcona Area Credit Union as reported in the basic financial statements as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 229,884	\$ 35,651	\$ 265,535

**Interest Rate Risk.** In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Atlanta Community Schools

NOTES TO FINANCIAL STATEMENTS

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**NOTE 3--DEPOSITS AND INVESTMENTS.** (continued)

**Credit Risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2008, the School District did not have any investments which have this type of risk.

**Concentration of Credit Risk.** The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial Credit Risk – Deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, there was \$312,395 of the School District's bank balance of \$412,395 that was exposed to custodial credit risk because it was uninsured and uncollateralized

**Custodial Credit Risk – Investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

**Foreign Currency Risk.** The School District is not authorized to invest in investments which have this type of risk.

**NOTE 4--RECEIVABLES.**

Receivables at June 30, 2008, consist of taxes, accounts, intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables from the State of Michigan follows:

Governmental Activities

State aid

\$ 242,777

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5--CAPITAL ASSETS.**

Capital assets activity for the fiscal year ended June 30, 2008 was as follows:

	Balances June 30, 2007	Additions	Disposals and Adjustments	Balances June 30, 2008
Capital assets not being depreciated:				
Land	\$ 1	\$ -	\$ -	\$ 1
Capital assets being depreciated:				
Buildings and improvements	10,708,724	-	-	10,708,724
Furniture, fixtures and equipment	1,645,839	-	-	1,645,839
Vehicles and buses	87,344	-	(69,344)	18,000
	<u>12,441,907</u>	<u>-</u>	<u>(69,344)</u>	<u>12,372,563</u>
Less accumulated depreciation:				
Buildings and improvements	(2,592,021)	(180,485)	-	(2,772,506)
Furniture, fixtures and equipment	(837,746)	(109,293)	-	(947,039)
Vehicles and buses	(87,344)	-	69,344	(18,000)
	<u>(3,517,111)</u>	<u>(289,778)</u>	<u>69,344</u>	<u>(3,737,545)</u>
Net capital assets – being depreciated	<u>\$ 8,924,796</u>	<u>\$ (289,778)</u>	<u>\$ -</u>	<u>\$ 8,635,018</u>
Governmental activities total capital assets – net of depreciation	<u>\$ 8,924,797</u>	<u>\$ (289,778)</u>	<u>\$ -</u>	<u>\$ 8,635,019</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6--LONG-TERM DEBT** (including current portions).

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2008:

	Balances, July 1, 2007	Additions	(Deductions)	Balances, June 30, 2008	Due within one year
General Obligation Bonds:					
Durant School Improvement Bonds					
Dated 05/15/1999					
Amount of issue - \$51,385					
Maturing through 2009					
Interest rate range - 4.76%-8.00%					
Principal maturity rate \$2,860 -					
\$18,059	\$ 30,341	\$ -	\$ -	\$ 30,341	\$ 2,860
1999 School Building and Site Bond					
Dated 05/01/1999					
Amount of issue - \$1,975,000					
Maturing through 2009					
Interest rate range - 5.20%-5.25%					
Principal maturity rate \$375,000 -					
\$405,000	810,000	-	(405,000)	405,000	405,000
2005 Refunding Bond					
Dated 11/01/05					
Amount of issue - \$4,140,000					
Maturing through 2019					
Interest rate range - 3.00%-5.00%					
Principal maturity range \$15,749 -					
\$410,000	4,125,000	-	(30,000)	4,095,000	30,000
Total bond obligations	4,965,341	-	(435,000)	4,530,341	437,860
Loans Payable:					
USDA Loan					
Dated 11/16/2001					
Amount of issue - \$83,464					
Maturing through 2007					
Interest rate - 5.42%	12,901	-	(12,901)	-	-
Kubota Tractor					
Dated 11/19/2006					
Amount of issue - \$11,515					
Maturing through 2011					
Interest rate - 7.99%	10,164	-	(2,295)	7,869	2,303

Atlanta Community Schools

NOTES TO FINANCIAL STATEMENTS

**NOTE 6--LONG-TERM DEBT** (including current portions). (continued)

	Balances, July 1, 2007	Additions	(Deductions)	Balances, June 30, 2008	Due within one year
Loans Payable: (continued)					
Kubota Tractor					
Dated 05/15/2006					
Amount of issue - \$7,010					
Maturing through 2011					
Interest rate - 3.99%	\$ 5,459	\$ -	\$ (1,253)	\$ 4,206	\$ 1,402
Total Loans Payable	28,524	-	(16,449)	12,075	3,705
Capital Leases:					
Energy Retrofit Lease					
Dated 12/12/05					
Amount of issue - \$134,848					
Maturing through 2015					
Interest rate - 3.95%	117,825	-	(11,916)	105,909	12,392
Hewlett-Packard Computer Lease					
Dated 11/30/06					
Amount of issue - \$48,390					
Maturing through 2011					
Interest rate - 6.00%	37,438	-	(8,483)	28,955	9,042
Hewlett-Packard Computer Lease					
Dated 11/30/06					
Amount of issue - \$36,262					
Maturing through 2011					
Interest rate - 6.00%	28,133	-	(6,717)	21,416	6,688
Hewlett-Packard Computer Lease					
Dated 11/30/06					
Amount of issue - \$99,879					
Maturing through 2011					
Interest rate - 6.00%	77,274	-	(18,335)	58,939	18,406
Total Capital Leases	260,670	-	(45,451)	215,219	46,528
Total Long-Term Debt	\$ 5,254,535	\$ -	\$ (496,900)	\$ 4,757,635	\$ 488,093

The 1999 School Improvement Bonds (Durant Bonds), including interest, were issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

Atlanta Community Schools

NOTES TO FINANCIAL STATEMENTS

**NOTE 6--LONG-TERM DEBT** (including current portions). (continued)

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2008 are as follows:

For the year ending June 30,	Principal	Interest	Total Debt
2009	\$ 488,093	\$ 209,430	\$ 697,766
2010	460,975	184,552	645,786
2011	464,989	167,524	632,785
2012	422,223	149,277	571,500
2013	437,549	138,386	575,935
2014-2018	2,073,806	358,667	2,432,473
2019	410,000	17,425	427,425
	<u>\$ 4,757,635</u>	<u>\$ 1,225,258</u>	<u>\$ 5,983,670</u>

**Compensated Absences.** The School District has contracted obligations to compensate eligible employees for absences from work for sick leave. Eligible employees are allowed to accumulate sick leave and the amounts so accumulated are payable at retirement or resignation subject to contractual limitations based on years of service. Union personnel may accumulate up to 180 days of sick leave of which \$20 per day is payable upon retirement. Non-union personnel also may accumulate up to 180 days sick leave with the rate of pay per day varying depending on their contract. The amount of accumulated sick and vacation pay liability for the School District was \$37,430 at June 30, 2008, of which \$1,000 was the estimated current portion.

**Early Retirement Incentive Payable.** The School District offers an early retirement incentive to certain teachers based on years of service and current wage scale payable over a five year period. The amount of retirement incentive liability for the School District at June 30, 2008 was \$70,500, of which \$40,500 was estimated as the current portion.

**Defeasance of Debt.** On May 19, 2005, the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2007 and ending 2019. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2008, \$4,095,000 of bonds outstanding are considered defeased.

**Changes in Long-Term Liabilities.** The following is a summary of long-term debt transactions of the school district for the year ended June 30, 2008:

General Obligation Bonds	\$4,965,341	\$ -	\$ (435,000)	\$ 4,530,341	\$ 437,860
Deferred issuance costs	(76,384)	-	6,127	(69,957)	6,427
Deferred loss on refunding	(115,164)	-	9,692	(105,472)	9,692
Deferred premium on refunding	128,444	-	(10,810)	117,634	(10,810)
Net - General Obligation Bonds	4,902,237	-	(429,691)	4,472,546	443,169
Loans payable	28,524	-	(16,449)	12,075	3,705
Capital leases	260,670	-	(45,451)	215,219	46,528
Compensated absences	38,937	-	(1,507)	37,430	1,000
Early Retirement incentives	111,000	-	(40,500)	70,500	40,500
Total Long-term liabilities	<u>\$5,341,368</u>	<u>\$ -</u>	<u>\$ (533,598)</u>	<u>\$4,807,770</u>	<u>\$ 534,902</u>

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 7--SHORT-TERM DEBT.**

The School District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The School District did not enter into any short-term financing arrangements during the fiscal year ending June 30, 2008.

**NOTE 8--OPERATING LEASE.**

On June 29, 2004 and March 15, 2006, the School District entered into lease agreements with Commercial Equipment Company for rentals of four Toshiba Digital Copier Systems. The lease payments under the noncancelable operating lease are as follows:

2009	\$ 6,337
2010	<u>2,442</u>
	<u>\$ 8,779</u>

Current year lease payments were \$6,337

**NOTE 9--FUND BALANCE RESERVATIONS AND DESIGNATIONS.**

Amounts of the various fund balances reserved or designated at June 30 are as follows:

<u>Fund</u>	<u>2008</u>	<u>2007</u>
Food Service Fund		
Reserved for inventories	\$ 4,208	\$ 1,776
Debt Retirement Fund		
Reserved for debt service	<u>175,790</u>	<u>107,392</u>
Total reservations and designations	<u>\$ 179,998</u>	<u>\$ 109,168</u>

**NOTE 10--PROPERTY TAXES.**

The assessed values of real and personal property situated in the School District are established annually by local taxing authorities as of December 1, and are equalized by the State at an estimated 50% of current market value. The property tax is levied on July 1 and becomes delinquent after September 14. Uncollected property taxes as of March 1 are added to the County delinquent tax rolls. By agreement with Montmorency County, the County purchases at face value the real property taxes receivable returned delinquent each March 1. The property value used for determining the amount of property tax levied is known as the "taxable value" (TV). This differs from the State Equalized Value (SEV) by increases being limited to a cost-of-living adjustment or 5 percent, whichever is less. The Taxable Value (TV) for the 2007-08 school year in the Atlanta Community Schools was established at \$60,450,936 for homestead property and \$101,716,070 for non-homestead property.

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 10--PROPERTY TAXES.** (continued)

The State of Michigan levies 6.0000 mills on all property with the proceeds dedicated to the Michigan State Aid Fund. A local operating millage of 18.0000 mills, approved by the voters of the district, and adjusted to 17.8776 mills by the provisions of the Headlee Amendment is levied against non-homestead property. The District voters also approved an additional 4.3500 mills for debt retirement.

**NOTE 11--DEFINED BENEFIT PENSION PLAN AND POST-EMPLOYMENT BENEFITS.**

**Plan Description.** The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, MI 48909-7671.

**Funding Policy.** Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 17.74 percent for the period from July 1, 2007 through September 30, 2007, and 16.72 percent from October 1, 2007 through June 30, 2008 of the covered payroll of the plan. The School District's contributions to the MPERS plan for the years ended June 30, 2008 and 2007 were \$240,608 and \$250,170, respectively. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. For the years ended June 30, 2008 and 2007, Atlanta Community School employees contributed \$45,851 and \$44,979, respectively.

**Postemployment Benefits.** Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS plan discussed above.

**Deferred Compensation Plans.** The School District offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457(g) for the exclusive benefits of the participants, holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the School District for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the School District's financial statements.

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11--DEFINED BENEFIT PENSION PLAN AND POST-EMPLOYMENT BENEFITS.**

(continued)

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$21,449 and \$18,859 for the years ended June 30, 2008 and 2007, respectively. The assets of the plan are administered and held by various approved third party financial institutions.

**NOTE 12--UNEMPLOYMENT COMPENSATION.**

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$12,429 as of June 30, 2008.

**NOTE 13--INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS.**

The composition of interfund balances at June 30, 2008 is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental Funds		
General Fund	\$ -	\$ 14,485
Athletic Fund	-	1,493
Agency Fund	<u>15,978</u>	<u>-</u>
	<u>\$ 15,978</u>	<u>\$ 15,978</u>

The interfund balance represents routine and temporary cash flow assistance to various funds as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 103,122
Athletic Fund	90,833	-
Food Service Fund	12,284	-
Refunding Bond Debt Retirement Fund	<u>5</u>	<u>-</u>
	<u>\$ 103,122</u>	<u>\$ 103,122</u>

Atlanta Community Schools

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 13--INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS.** (continued)

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 14--CONTINGENCIES, CLAIMS AND LITIGATION.**

There are currently no known legal actions pending against the School District that would require recording a liability. It is the policy of Atlanta Community Schools to record a liability for any contingency, claim or lawsuit when the loss is probable and an amount can be reasonably estimated.

**NOTE 15--RISK MANAGEMENT.**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and excess insurance coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The School District participates in the MASB-SEG Property and Casualty Pool for general and automobile liability, motor vehicle physical damage and property damage coverage. The MASB-SEG Property/Casualty Pool, Inc. was established in May 1985, pursuant to the laws of the State of Michigan. The purpose of the pool is to provide cooperative and comprehensive risk financing and control services. Member premiums are used to purchase excess insurance coverage and pay member claims in excess of deductible amounts. The deductible amount of any one loss ranges from \$250 to \$1,000 with a maximum coverage amount of \$1,000,000 for general liability and \$2,000,000 for errors and omission claims.

The School District also participates in the SEG-Self-Insured Worker's Disability Compensation Fund for its Workers Compensation liabilities with coverage specific/statutory (unlimited) employers' liability of \$1,000,000.

The School District has purchased commercial insurance for medical, life insurance, long-term disability, dental and vision benefits claims for employees and their eligible dependents.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

Atlanta Community Schools

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

Year ended June 30, 2008

	Budget Amounts			Variance with
	Original	Final	Actual	Final Budget
<b>REVENUES</b>				
Local sources	\$ 1,887,254	\$ 1,861,375	\$ 1,879,118	\$ 17,743
State sources	1,430,919	1,309,040	1,312,593	3,553
Federal sources	270,602	277,500	264,679	(12,821)
Interdistrict sources	124,407	56,059	52,983	(3,076)
Total revenues	3,713,182	3,503,974	3,509,373	5,399
<b>EXPENDITURES</b>				
Instruction	2,262,460	2,122,534	2,109,486	13,048
Supporting services	1,411,268	1,291,180	1,304,126	(12,946)
Debt service	-	76,267	76,390	(123)
Total expenditures	3,673,728	3,489,981	3,490,002	(21)
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	39,454	13,993	19,371	5,378
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to other funds	(50,000)	(76,100)	(103,122)	(27,022)
	(50,000)	(76,100)	(103,122)	(27,022)
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	(10,546)	(62,107)	(83,751)	(21,644)
<b>FUND BALANCES</b> , beginning of the year	179,502	179,502	179,502	-
<b>FUND BALANCES</b> , end of the year	\$ 168,956	\$ 117,395	\$ 95,751	\$ (21,644)

Atlanta Community Schools

**COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS**

June 30, 2008

	Special Revenue Funds		Total Other Governmental Funds
	Athletics Fund	Food Services Fund	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 15,648	\$ 1,841	\$ 17,489
Due from other governmental units	-	1,187	1,187
Inventory	2,823	1,997	4,820
Total assets	<u>\$ 18,471</u>	<u>\$ 5,025</u>	<u>\$ 23,496</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Accounts payable	\$ 2,823	\$ -	\$ 2,823
Due to agency fund	1,493	-	1,493
Accrued expenditures	-	817	817
Total liabilities	<u>4,316</u>	<u>817</u>	<u>5,133</u>
Fund Equity			
Fund balances			
Reserved			
Food service fund	-	4,208	4,208
Unreserved			
Undesignated	14,155	-	14,155
	<u>14,155</u>	<u>4,208</u>	<u>18,363</u>
Total liabilities and fund balances	<u>\$ 18,471</u>	<u>\$ 5,025</u>	<u>\$ 23,496</u>

Atlanta Community Schools

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
OTHER GOVERNMENTAL FUNDS**

Year Ended June 30, 2008

	Special Revenue Funds		Total Other Governmental Funds
	Athletics Fund	Food Services Fund	
<b>REVENUES</b>			
Local sources:			
Interest on investments	\$ 742	\$ 88	\$ 830
Athletics admissions	22,139	-	22,139
Food sales	-	41,197	41,197
Miscellaneous local revenues	17,930	-	17,930
State sources	-	6,280	6,280
Federal sources	-	115,443	115,443
Total revenues	40,811	163,008	203,819
<b>EXPENDITURES</b>			
Current:			
Athletics	98,516	-	98,516
Food services	-	172,860	172,860
Debt service:			
Principal retirement	-	-	-
Interest and fees	-	-	-
Total expenditures	98,516	172,860	271,376
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(57,705)	(9,852)	(67,557)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	90,833	12,284	103,117
	90,833	12,284	103,117
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	33,128	2,432	35,560
<b>FUND BALANCES</b> , beginning of the year	(18,973)	1,776	(17,197)
<b>FUND BALANCES</b> , end of the year	\$ 14,155	\$ 4,208	\$ 18,363

Atlanta Community Schools

**GENERAL FUND  
BALANCE SHEET**

	June 30	
	2008	2007
<b>ASSETS</b>		
Cash and cash equivalents	\$ 36,605	\$ 50,810
Accounts receivable	-	16,501
Due from other governmental units	247,308	290,119
Due from other funds	-	24,723
Prepaid expenses	11,439	16,593
Total assets	<u>\$ 295,352</u>	<u>\$ 398,746</u>
<b>LIABILITIES AND EQUITIES</b>		
Accounts payable	\$ 35,606	\$ -
Due to agency fund	14,485	14,042
Payroll deductions and withholdings	22,475	843
Accrued expenditures	34,031	108,899
Salaries payable	93,004	95,460
Total liabilities	<u>199,601</u>	<u>219,244</u>
Fund Balances		
Unreserved		
Undesignated	<u>95,751</u>	<u>179,502</u>
Total fund balances	<u>95,751</u>	<u>179,502</u>
Total liabilities and fund equities	<u>\$ 295,352</u>	<u>\$ 398,746</u>

Atlanta Community Schools

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2008 Final Budget	2008 Actual	2007 Actual
<b>REVENUES</b>			
<b>LOCAL SOURCES</b>			
Property tax levy	\$ 1,837,400	\$ 1,835,403	\$ 1,776,295
Tuition	475	1,774	-
Earnings on investments and deposits	17,000	18,095	15,392
Rents	2,500	2,638	2,544
Miscellaneous local revenues	4,000	21,208	49,317
Total local sources	<u>1,861,375</u>	<u>1,879,118</u>	<u>1,843,548</u>
<b>STATE SOURCES</b>			
State aid foundation allowance	1,095,950	1,099,670	1,239,921
NonPlaintiff Durant Settlement	5,140	5,139	-
At risk	126,350	126,184	111,362
Math/science	-	-	5,003
Preschool program/early childhood education	81,600	81,600	79,200
Total state sources	<u>1,309,040</u>	<u>1,312,593</u>	<u>1,435,486</u>
<b>FEDERAL SOURCES</b>			
Title I	210,900	202,131	207,734
Title II - Improving teacher quality	58,700	58,676	54,408
Title II - Part D	2,000	1,980	-
Title V	1,900	1,892	2,156
Drug free schools	4,000	-	-
Total federal sources	<u>277,500</u>	<u>264,679</u>	<u>264,298</u>
<b>INTERDISTRICT SOURCES</b>			
Special education tax	<u>56,059</u>	<u>52,983</u>	<u>118,593</u>
	<u>56,059</u>	<u>52,983</u>	<u>118,593</u>
Total revenues	<u>\$ 3,503,974</u>	<u>\$ 3,509,373</u>	<u>\$ 3,661,925</u>

Atlanta Community Schools

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2008 Final Budget	2008 Actual	2007 Actual
<b>EXPENDITURES</b>			
<b>INSTRUCTION</b>			
<b>BASIC PROGRAMS</b>			
Elementary			
Salaries	\$ 411,153	\$ 418,688	\$ 329,788
Employee benefits	212,362	213,435	219,786
Purchased services	21,845	19,338	41,656
Supplies and materials	20,950	14,271	81,391
	<u>666,310</u>	<u>665,732</u>	<u>672,621</u>
High School			
Salaries	369,246	367,823	469,593
Employee benefits	226,524	225,146	277,987
Purchased services	99,835	97,213	97,481
Supplies and materials	21,530	18,494	114,065
	<u>717,135</u>	<u>708,676</u>	<u>959,126</u>
Preschool			
Purchased services	81,600	79,209	83,707
	<u>81,600</u>	<u>79,209</u>	<u>83,707</u>
Total basic programs	<u>1,465,045</u>	<u>1,453,617</u>	<u>1,715,454</u>
<b>ADDED NEEDS</b>			
Special Education			
Salaries	98,915	99,105	102,946
Employee benefits	53,950	54,445	61,457
Purchased services	5,300	4,956	5,366
Supplies and materials	3,000	2,492	3,639
	<u>161,165</u>	<u>160,998</u>	<u>173,408</u>
Compensatory Education			
Salaries	29,317	29,700	-
Employee benefits	15,010	15,872	-
Purchased services	202,097	190,194	217,996
Supplies and materials	-	-	2,156
	<u>246,424</u>	<u>235,766</u>	<u>220,152</u>
At Risk			
Salaries	58,905	56,908	69,854
Employee benefits	33,037	39,897	40,835
Purchased services	34,258	31,572	-
	<u>126,200</u>	<u>128,377</u>	<u>110,689</u>

Atlanta Community Schools

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2008 Final Budget	2008 Actual	2007 Actual
<b>EXPENDITURES (Continued)</b>			
Alternative Education			
Salaries	\$ 34,566	\$ 39,163	\$ 40,807
Employee benefits	16,289	18,886	23,654
Purchased services	64,882	66,790	14,896
Supplies and materials	7,963	5,889	16,835
	<u>123,700</u>	<u>130,728</u>	<u>96,192</u>
Total added needs	<u>657,489</u>	<u>655,869</u>	<u>600,441</u>
Total instruction	<u>2,122,534</u>	<u>2,109,486</u>	<u>2,315,895</u>
<b>SUPPORTING SERVICES</b>			
<b>PUPIL SERVICES</b>			
Truancy Officer			
Purchased services	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>
	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>
Guidance Services			
Purchased services	<u>10,075</u>	<u>7,950</u>	<u>27,975</u>
	<u>10,075</u>	<u>7,950</u>	<u>27,975</u>
Health Services			
Purchased services	<u>9,200</u>	<u>9,000</u>	<u>12,306</u>
	<u>9,200</u>	<u>9,000</u>	<u>12,306</u>
Social Work Services			
Purchased services	<u>10,000</u>	<u>8,250</u>	<u>8,025</u>
	<u>10,000</u>	<u>8,250</u>	<u>8,025</u>
Total pupil services	<u>33,275</u>	<u>29,200</u>	<u>52,306</u>
<b>GENERAL ADMINISTRATION</b>			
Board of Education			
Salaries	12,000	10,600	10,450
Purchased services	54,100	49,175	107,132
Supplies and materials	2,100	1,494	2,364
	<u>68,200</u>	<u>61,269</u>	<u>119,946</u>
Executive Administration			
Salaries	100,250	121,554	82,990
Employee benefits	35,024	35,315	38,186
Purchased services	3,800	3,338	1,343
Supplies and materials	2,200	1,805	-
	<u>141,274</u>	<u>162,012</u>	<u>122,519</u>
Total general administration	<u>209,474</u>	<u>223,281</u>	<u>242,465</u>

Atlanta Community Schools

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2008 Final Budget	2008 Actual	2007 Actual
<b>EXPENDITURES (Continued)</b>			
<b>SCHOOL ADMINISTRATION</b>			
Office of the Principal			
Salaries	\$ 122,685	\$ 121,714	\$ 118,901
Employee benefits	75,738	70,365	77,032
Purchased services	11,340	8,325	10,522
Supplies and materials	23,129	26,960	22,863
Total school administration	232,892	227,364	229,318
<b>BUSINESS SERVICES</b>			
Fiscal Services			
Salaries	58,637	62,426	60,346
Employee benefits	45,127	44,166	43,916
Purchased services	44,135	41,679	15,813
Supplies and materials	15,500	14,121	33,770
	163,399	162,392	153,845
Other Business Services			
Purchased services	13,400	10,187	-
Total business services	176,799	172,579	153,845
<b>OPERATIONS AND MAINTENANCE</b>			
Operating Buildings Services			
Salaries	8,080	8,046	48,019
Employee benefits	10,080	7,811	31,777
Purchased services	334,839	361,136	337,108
Supplies and materials	24,033	15,715	53,033
Total operations and maintenance	377,032	392,708	469,937
<b>TRANSPORTATION SERVICES</b>			
Transportation Services			
Salaries	90,604	91,093	103,779
Employee benefits	46,169	46,818	50,531
Purchased services	19,200	16,901	30,603
Supplies and materials	69,925	70,866	75,665
Total transportation services	225,898	225,678	260,578

Atlanta Community Schools

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2008 Final Budget	2008 Actual	2007 Actual
<b>EXPENDITURES (Continued)</b>			
<b>CENTRAL SERVICES</b>			
Staff/Personnel Services			
Purchased services	\$ 5,000	\$ 4,917	\$ -
Non-Instructional Technology Services			
Purchased services	28,810	26,306	43,795
Supplies and materials	2,000	2,093	84,885
	30,810	28,399	128,680
Total central services	35,810	33,316	128,680
Total supporting services	1,291,180	1,304,126	1,537,129
<b>DEBT SERVICE</b>			
Principal retirement	61,649	61,900	68,313
Interest and fees	14,618	14,490	7,726
Total debt service	76,267	76,390	76,039
Total Expenditures	3,489,981	3,490,002	3,929,063
<b>OTHER FINANCING SOURCES (USES)</b>			
Loan proceeds	-	-	11,515
Capital lease proceeds	-	-	184,631
Sale of fixed assets	-	-	64,657
Transfers in from other funds	-	-	11,312
Transfers out to other funds	(76,100)	(103,122)	(40,005)
	(76,100)	(103,122)	232,110
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	(62,107)	(83,751)	(35,028)
<b>FUND BALANCES, beginning of the year</b>	179,502	179,502	214,530
<b>FUND BALANCES, end of the year</b>	\$ 117,395	\$ 95,751	\$ 179,502

Atlanta Community Schools

**AGENCY FUND - STUDENT ACTIVITIES  
STATEMENT OF RECEIPTS AND DISBURSEMENTS**

Year Ended June 30, 2008

	July 1, 2007	Receipts & Transfers	Disbursements & Transfers	June 30, 2008
Alternative Education	\$ -	\$ 4,133	\$ 1,891	\$ 2,242
Athletic Fund Raisers	-	1,493	1,493	-
Basketball Boys Junior High	-	5	5	-
Basketball Boys JV/Varsity	287	-	-	287
Basketball Girls Junior High	615	280	293	602
Basketball Girls JV/Varsity	1,932	2,434	2,770	1,596
Book Fair	3,276	-	-	3,276
Canada Creek Scholarship	799	4,500	4,500	799
Cheerleading	542	-	-	542
Class of 2004	588	-	-	588
Class of 2005	-	-	-	-
Class of 2006	853	-	-	853
Class of 2007	-	-	-	-
Class of 2008	10,521	9,083	19,596	8
Class of 2009	3,988	-	-	3,988
Class of 2010	3,016	1,519	-	4,535
Class of 2011	1,734	324	-	2,058
Class of 2012	-	-	-	-
Class of 2013	-	1,102	-	1,102
Homecoming	-	425	405	20
Interest	-	1,024	-	1,024
Library	434	197	546	85
Music	4,561	6,386	5,325	5,622
National Honor Society	703	3,383	3,373	713
Ski Club	5,730	4,185	185	9,730
Scholarship-Dan Baum	7,693	-	500	7,193
Special Projects	2,276	2,412	1,899	2,789
Student Council Elementary	1,532	-	-	1,532
Student Council High School	680	272	135	817
Suspense	666	-	637	29
Wood Shop	709	-	1,190	(481)
Yearbook	-	80	-	80
Totals	<u>\$ 53,135</u>	<u>\$ 43,237</u>	<u>\$ 44,743</u>	<u>\$ 51,629</u>

## **OTHER SUPPLEMENTAL INFORMATION AND INDIVIDUAL FUND STATEMENTS**

Atlanta Community Schools

**SCHEDULE OF INDEBTEDNESS**

June 30, 2008

	<u>Interest</u>	<u>FY of Maturity</u>	<u>Principal Payable</u>	<u>Annual Interest Payable</u>
<b><u>GENERAL OBLIGATION BONDS</u></b>				
1998 School Improvement Bonds	4.76%	2009	\$ 2,860	\$ 749
Date of issue: November 24, 1998	4.76%	2010	2,996	613
Amount of issue: \$51,385	4.76%	2011	3,138	470
	4.76%	2012	3,288	320
	4.76%	2013	18,059	6,185
			<u>30,341</u>	<u>8,337</u>
1999 School Building and Site Bonds	5.20%	2009	405,000	21,060
Date of issue: November 1, 1999			<u>405,000</u>	<u>21,060</u>
Amount of issue: \$1,975,000				
2005 School Refunding Bonds	3.13%	2009	30,000	175,725
Date of issue: May 19, 2005	3.50%	2010	405,000	174,788
Amount of issue: \$4,140,000	3.50%	2011	405,000	160,612
	4.00%	2012	405,000	146,438
	5.00%	2013	405,000	130,237
	5.00%	2014	405,000	109,988
	5.00%	2015	405,000	89,737
	4.25%	2016	405,000	69,488
	4.25%	2017	410,000	52,275
	4.25%	2018	410,000	34,850
	4.25%	2019	410,000	17,425
			<u>4,095,000</u>	<u>1,161,563</u>
			<u>4,530,341</u>	<u>1,190,960</u>
<b><u>LOANS PAYABLE</u></b>				
Kubota Credit Corp.		2009	2,303	480
Date of Loan: December 19, 2006		2010	2,303	479
Amount of loan: \$11,515		2011	2,303	480
		2012	960	200
			<u>7,869</u>	<u>1,639</u>
Kubota Credit Corp.		2009	1,402	147
Date of Loan: June 1, 2006		2010	1,402	147
Amount of loan: \$7,011		2011	1,402	147
			<u>4,206</u>	<u>441</u>
			<u>12,075</u>	<u>2,080</u>

Atlanta Community Schools

**SCHEDULE OF INDEBTEDNESS**

June 30, 2008

	<u>Interest</u>	<u>FY of Maturity</u>	<u>Principal Payable</u>	<u>Annual Interest Payable</u>
<b><u>CAPITAL LEASES</u></b>				
Energy Retrofit Lease		2009	\$ 12,392	\$ 4,062
Date of issue: December 12, 2005		2010	12,886	3,568
Amount of lease: \$134,848		2011	13,400	3,054
		2012	13,935	2,519
		2013	14,490	1,964
		2014	15,068	1,386
		2015	15,670	784
		2016	8,068	159
			<u>105,909</u>	<u>17,496</u>
Hewlett Packard Computer Lease		2009	9,042	1,909
Date of issue: November 30, 2006		2010	9,639	1,313
Amount of lease: \$ 48,390		2011	10,274	678
			<u>28,955</u>	<u>3,900</u>
Hewlett Packard Computer Lease		2009	6,688	1,412
Date of issue: November 30, 2006		2010	7,129	971
Amount of lease: \$ 36,262		2011	7,599	501
			<u>21,416</u>	<u>2,884</u>
Hewlett Packard Computer Lease		2009	18,406	3,886
Date of issue: November 30, 2006		2010	19,620	2,673
Amount of lease: \$ 99,879		2011	20,913	1,379
			<u>58,939</u>	<u>7,938</u>
			<u>215,219</u>	<u>32,218</u>
			<u>\$ 4,757,635</u>	<u>\$ 1,225,258</u>



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To the Board of Education  
**Atlanta Community Schools**  
Atlanta, Michigan 49709

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.** We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Atlanta Community Schools**, as of and for the year ended June 30, 2008, which collectively comprise the **Atlanta Community School's** basic financial statements and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the **Atlanta Community School's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Atlanta Community School's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Atlanta Community School's** internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the **Atlanta Community School's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the **Atlanta Community School's** financial statements that is more than inconsequential will not be prevented or detected by the **Atlanta Community School's** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the **Atlanta Community School's** internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the **Atlanta Community School's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the **Atlanta Community School's** in a separate letter dated October 31, 2008.

This report is intended solely for the information and use of management, the audit committee, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

*Straley, Isley & Lamp P.C.*

October 31, 2008



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To the Board of Education  
Atlanta Community Schools  
Atlanta, Michigan

We have completed our engagement of the audit of the financial statements of Atlanta Community Schools (the "District") for the year ended June 30, 2008. In addition to our audit report, we are providing the following:

Letter of increased audit communications as prescribed by Statement on Auditing Standards (SAS) 112

Letter of required audit communication, as prescribed by SAS 114

Other recommendations and informational comments which impact the District

	<b><u>Page</u></b>
<b>Internal Control Communications (SAS 112 Letter)</b>	<b>2</b>
<b>Audit Communications (SAS 114 Letter)</b>	<b>4</b>

We appreciate the opportunity to serve the Atlanta Community Schools. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

October 31, 2008



Certified Public Accountants

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### INTERNAL CONTROL COMMUNICATIONS

To the Board of Education  
Atlanta Community Schools  
Atlanta, Michigan

New auditing rules have resulted in changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standard (Statement on Auditing Standards No. 112, referred to as SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new standard defines as a "significant deficiency." The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency.

In the past, we have sometimes provided comments of this nature as part of a draft meeting with management. Only material internal control issues have been included in our letter. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the School board members in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Atlanta Community Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Atlanta Community School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We wish to thank the staff of the Atlanta Community Schools for their assistance during the audit.

This report is intended solely for the information and use of the management, the Board of Education, and others within the organization, and the State of Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve the Atlanta Community Schools. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Very truly yours,

*Straley, Irling J. Lamp PC*

October 31, 2008



Certified Public Accountants

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### AUDIT COMMUNICATIONS

To the Board of Education  
Atlanta Community Schools  
Atlanta, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Atlanta Community Schools for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. Professional standards require that we provide you with the following information related to our audit.

#### **Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated August 7, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Atlanta Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Atlanta Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Atlanta Community School's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Atlanta Community School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Atlanta Community School's compliance with those requirements.

#### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our communications prior to and during the audit fieldwork.

## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Atlanta Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation expense is based on management's assumptions about the useful lives of its fixed assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 31, 2008.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Eleven new auditing standards have been issued that require significant changes in how audits are performed. Similar to the Sarbanes-Oxley rules that impacted publicly held corporations, these rules are intended to help audited entities strengthen their internal controls. In brief, these new rules require all auditors to:

- Obtain a deeper understanding of the design and operation of internal control
- Assess the effectiveness of internal control
- Obtain corroborating evidence that the understanding is correct and the assessment is appropriate (i.e., inspection of documents, observation of procedures, or inquiry)
- Consider “what could go wrong” in the financial statement process (evaluate the risks of financial statement errors)
- Link the results to specific further audit procedures
- Communicate a summary of the results of the auditor’s work to those charged with governance (the Board of Education)

As you can see, auditors will spend significantly more time working with all aspects of your internal control. These new rules are not limited to the public sector – they will apply to any organization that obtains an audit (nonprofit organization, private company, etc.). These new rules have impacted audited organizations in two ways: your finance staff has incurred more time and effort in preparation for the audit, and the audit process has required additional time.

### **Other Matters**

#### **1. Accounting Recommendations.**

- A. Early Retirement Incentive Payments Made in Cash are Subject to FICA Taxation.** The School District currently does not withhold FICA taxes on early retirement incentive payments. The U.S. Supreme Court has let stand an appellate court decision that early retirement incentive payments made in cash by Michigan schools are subject to FICA taxation.

The controversy started in 2001 when a court in North Dakota ruled that termination incentive payments were not subject to FICA taxation. Many school districts in Michigan filed “protective” refund applications. In 2004, two Michigan district courts came to opposite conclusions on whether early retirement incentive payments made in cash were subject to FICA taxation. The 6<sup>th</sup> Circuit Court of Appeals, with jurisdiction over Michigan, heard the appeal of the two cases and ruled in July 2006 that incentive payments were subject to FICA. In January, 2007, the Supreme Court refused to hear the appeal of the 6<sup>th</sup> Circuit ruling effectively blessing the decision and ending the saga.

Some districts provide early retirement incentive payments in the form of employer 403(b) contributions, which currently are not subject to FICA taxation, thereby bypassing the FICA tax issue.

We encourage management to review the issue of early retirement incentive payments to ensure compliance with applicable laws.

**B. Segregation of Duties.** Segregation of duties can be difficult to accomplish within small organizations. During much of the fiscal year, one person acted as superintendent and controller of the School District. These positions function within high levels of the internal control process, including the approval of transactions as well as the financial reporting processes. The purpose of compensating internal controls is to ensure that errors or misstatements can be prevented or detected within a reasonable period of time. Near the end of the fiscal year, these duties were separated with the newly hired management positions, including a controller and a superintendent. This separation of duties, along with the experience and knowledge of the newly hired management positions, improved the overall internal control structure and financial reporting process compared to prior years. We commend the Board for recognizing the importance of these duties and making these critical decisions in difficult economic times.

**2. Recent Pronouncements.** The Governmental Accounting Standards Board and Michigan Department of Education, in its continuing process of updating the accounting principles that all governments must adhere to, has issued the following recent pronouncements that will have an impact on the way the Atlanta Community Schools maintains its financial records:

**A. GASB Statement No. 43 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.** This statement establishes uniform reporting standards for other postemployment benefit plans. The financial statements focus on reporting current financial information about plan net assets and required note disclosures include a brief plan description, a summary of significant accounting policies, and information about contributions and legally required reserves. The requirements of this statement are effective for financial statements of the School District for the year ended June 30, 2009.

**B GASB Statement No. 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.** This statement will require governmental units to record the cost of benefits (such as health insurance, life insurance, etc) in the periods when the related services are received by the employer if these benefits are not provided for through a pension plan. This will require the School District to accrue and report an actuarially computed liability for any future postemployment benefit other than pensions. The requirements of this statement are effective for financial statements of the School District for the year ended June 30, 2010.

- C. GASB Statement No. 49 Accounting and Financial Reporting for Pollution Remediation Obligations.** This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This will require the School District to capitalize pollution remediation outlays in the future. The requirements of this statement are effective for financial statements of the School District for the year ended June 30, 2009.
- D. GASB Statement No. 51 Accounting and Financial Reporting for Intangible Assets.** This statement establishes consistent standards as to whether intangible assets including easements, timber rights, and computer software should be considered capital assets for financial reporting purposes. The requirements of this statement are effective for financial statements of the School District for the year ended June 30, 2010.
- E. GASB Statement No. 52 Land and Other Real Estate Held as Investments by Endowments.** This statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of the endowments. Reporting land and other real estate held as investments at fair value enhances user's ability to meaningfully evaluate an entity's investment decisions and performance. The requirements of this statement are effective for financial statements of the School District for the year ended June 30, 2009.

### **3. Issues Likely to Impact Schools.**

- A. Government Deposit Insurance.** Under Michigan Law, governmental units, including School Districts, are directed and limited where they may invest or deposit public funds. Depository institutions such as banks, credit unions, or savings and loans may offer FDIC insurance coverage.

The insurance coverage of a school's accounts depends upon the type of deposit. All time and savings deposits (which include NOW accounts, CD's, money market deposit accounts, and other interest-bearing accounts) held by a school in a particular insured depository institution within the State are added together and insured up to \$250,000 (until December 31, 2009). Separately, all demand deposits (checking accounts) held in the same insured depository institution within the same State are added together and insured up to \$250,000. Special rules apply to funds that are required to be set aside for debt owed to holders of notes or bonds – additional insured coverage may be available for the beneficial interest of each bondholder.

Recent market events have indicated that certain financial institutions, including some within the Midwest region, may be experiencing financial distress. In the event of a regulatory takeover of a financial institution, uninsured or underinsured depositors may not receive all of their funds back after the regulatory takeover.

We encourage the school to perform the necessary due diligence to assure itself that it has the protection and coverage it desires to protect its public funds.

- B. IRS 403(b) Final Regulations (Tax Sheltered Annuities).** For the first time in 40 years, the IRS has published comprehensive 403(b) guidance in the form of final regulations. The regulations require much more School District involvement than was necessary in the past. The regulations also require a written plan and generally place the burden on the School District to make sure that the plan is administered in accordance with the terms of what will become, for many School Districts, their first 403(b) plan document.

**IRS 403(b) Final Regulations (Tax Sheltered Annuities).** (Continued)

These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

We wish to thank the staff of the Atlanta Community Schools for their assistance during the audit.

This report is intended solely for the information and use of Atlanta Community Schools Board of Education, Michigan Department of Education, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties.

We commend the Atlanta Community Schools for its excellent recordkeeping system and appreciate the opportunity to serve the Atlanta Community Schools. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Very truly yours,

*Straluy, I lsby ; Lamp PC*

October 31, 2008